

DRAFT

C A R T I E R

THE U.S. DUTY FREE MARKET

AUGUST 21, 1990

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**CARTIER**  
**CURRENT SITUATION**

- **PRODUCTS:** CARTIER VENDOME AND CARTIER LUXURY MILDS  
- BOTH VIRGINIA BLENDED PRODUCTS.
- **CURRENT DISTRIBUTOR:** TOBACCO EXPORTERS INT'L (TEI)
- **UNIT VOLUME:** OVER 14 MILLION UNITS PER YEAR, WITH  
THE LUXURY MILDS BEING THE LARGER SELLER (60% OF  
TOTAL).

<b><u>PRICE:</u></b>	<b><u>VENDOME</u></b>	<b><u>LUX MILD</u></b>	<b><u>MARL KS</u></b>
LIST PRICE (PER M)	\$34.50	\$36.50	\$33.50
LESS: HANDLING ALLOW.	1.73	1.83	1.10
: SPECIAL ALLOW.	<u>2.50</u>	<u>2.50</u>	<u>-</u>
NET PRICE (PER M)	\$30.29	\$32.17	\$32.40

- TEI GIVES A SPECIAL ALLOWANCE AS A REBATE, IT  
IS NOT TAKEN OFF INVOICE. IT IS NOT KNOWN IF  
THIS IS GIVEN TO ALL CUSTOMERS.
- TEI IS BELIEVED TO HAVE A LOWER PRICE ON THE  
MEXICAN BORDER (\$24.80/M), HOWEVER, WE HAVE NOT  
RECEIVED WRITTEN CONFIRMATION.
- **KEY SEGMENT/ACCOUNT:** ALMOST ALL OF CARTIER'S VOLUME  
IS IN THE AIRPORT SEGMENT, WITH THE VAST MAJORITY OF  
VOLUME BEING SOLD THROUGH DUTY FREE SHOPPERS.

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## DUTY FREE SHOPPERS (DFS)

### BACKGROUND

- OPERATES NINE U.S. AIRPORT LOCATIONS (JFK-NY, BOSTON, ATLANTA, HOUSTON, DALLAS, LOS ANGELES, PORTLAND, ANCHORAGE AND HONOLULU).
- DFS REPRESENTS TWO-THIRDS OF THE TOTAL U.S. AIRPORT CIGARETTE VOLUME.

### CARTIER

- TOTAL CARTIER SALES: 17.2 MILLION UNITS INCLUDING GUAM.
- EXCLUDING GUAM, SALES ARE 13.8 MILLION UNITS.
- 60% OF CARTIER VOLUME WITH DFS IS IN THE LUXURY MILDS.
- ALMOST ALL OF CARTIER'S SALES ARE TO JAPANESE.
- VENDOME PRIMARILY APPEALS TO FEMALES.
- DFS WAS KEY TO CARTIER'S INITIAL DEVELOPMENT.
- CARTIER IS A GIFT BUSINESS NOT A CIGARETTE BUSINESS.
- FROM DFS'S VIEW, THE KEY PROBLEM WITH CARTIER IS THE RELATIVELY LOW RETAIL PRICES/MARGINS.

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## CARTIER SALES NOTES BY AIRPORT

### HONOLULU (DFS)

- VENDOME OUTSELLS LUXURY MILD BY 3:2 (WEEK OF 8/2).
- KEY PURCHASERS ARE MIDDLE AGED JAPANESE TOURISTS (MEN AND WOMEN AGES 35-50).
- SMALL FRACTION OF SALES MADE TO FRENCH TOURISTS.

### LOS ANGELES (DFS)

- LUXURY MILD OUTSELLS VENDOME IN THE DOWNTOWN OUTLETS BY 3:1.
- KEY PURCHASERS ARE MIDDLE AGED JAPANESE BUSINESSMEN.

### ANCHORAGE (DFS)

- LUXURY MILD OUTSELLS VENDOME.
- KEY PURCHASERS ARE JAPANESE.

### SAN FRANCISCO (ALLDERS)

- LUXURY MILD OUTSELLS VENDOME.
- KEY PURCHASERS ARE YOUNG FEMALE JAPANESE.

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## PRICING/GROSS MARGIN HIGHLIGHTS

- THE RETAIL PRICING STRUCTURE IN DUTY FREE AIRPORTS GOES FROM (LOW TO HIGH)

<u>BRAND</u>	<u>AVERAGE RETAIL</u>	<u>AVERAGE GROSS MARGIN</u>
MARLBORO	\$13.00	50%
DUNHILL	14.00	53%
CARTIER VENDOME	15.00	56%
CARTIER LUXURY MILD	16.00	57%
LARK DELUXE MILD	16.50	60%
PMI	21.00	68%

- CARTIER'S RELATIVELY LOW PRICES IN ASIA WILL LIMIT THE PRICE INCREASES THAT PM OR RETAILERS COULD TAKE.
- CARTIER MUST HAVE A HIGHER RETAIL PRICE AND/OR A HIGHER GROSS MARGIN IN ORDER FOR IT TO BECOME A "RETAILER-PUSH" BRAND. CARTIER'S CONSUMER FRANCHISE IS NOT STRONG ENOUGH FOR IT TO BE A MAJOR "CONSUMER-PULL" BRAND.

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**DUTY FREE PRICING REVIEW**  
(US \$ PER CARTON)

<u>AIRPORT</u>	<u>----- CARTIER -----</u> <u>LUXURY MILD</u>	<u>-----</u> <u>VENDOME</u>	<u>MARLBORO</u>	<u>DUNHILL</u>	<u>LARK DELUXE</u>	<u>PMI</u>
<b>USA</b>						
HONOLULU	16.00	14.00	13.00	13.00	16.00	20.00
NY-DFS	15.99	N/A	14.49	14.99	16.99	16.99
FENTON	N/A	17.95	13.50		16.99	16.99
MIAMI	16.00	N/A	12.25	15.00	N/A	N/A
LOS ANGELES	16.00	14.50	13.00		16.50	22.00
SAN FRANCISCO	16.00	16.00	11.50		16.50	22.00
ANCHORAGE	14.25	12.00	11.25	14.25	15.00	21.00
O'HARE	N/A	15.00	14.50		15.00	14.75
DULLES	15.00	N/A	12.25		12.50	17.00
ATLANTA	15.99	N/A	11.49	14.99	15.99	N/A
BOSTON	15.99	N/A	13.49	14.99	N/A	N/A
<b>ASIA</b>						
TOKYO (Y150)	N/A	10.67	10.00	11.33	13.33	N/A
HONG KONG (HK\$7.8)	N/A	13.46 (A)	9.87	11.28 (B)	11.28	N/A
SINGAPORE (S\$1.8)	7.50	6.94 (A)	6.67	7.22	11.67	N/A

(A) Cartier Menthol and Cartier KS  
(B) Dunhill Menthol

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U.S. DUTY FREE GROSS MARGIN REVIEW \*

<u>AIRPORT</u>	----- CARTIER <u>LUXURY MILD</u>	----- <u>VENDOME</u>	<u>MARLBORO</u>	<u>DUNHILL</u>	<u>LARK DELUXE</u>	<u>PMI</u>
HONOLULU	57%	53%	50%	50%	58%	67%
NY-DFS	57%	-	55%	56%	61%	61%
FENTON	N/A	64%	52%	56%	61%	61%
MIAMI	57%	N/A	47%		N/A	N/A
LOS ANGELES	57%	55%	50%		60%	70%
SAN FRANCISCO	57%	59%	44%		60%	70%
ANCHORAGE	51%	45%	42%	54%	56%	68%
O'HARE	N/A	56%	55%		56%	55%
DULLES	54%	N/A	47%		47%	61%
ATLANTA	57%	N/A	44%	56%	58%	N/A
BOSTON	57%	N/A	52%	56%	N/A	N/A

\* Calculated using list prices less handling allowances. Excludes all special allowances and transparency payments.

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## CARTIER PRODUCT OPTIONS

- 1) MAINTAIN EXISTING VIRGINIA BLEND IN ALL U.S. DUTY FREE OUTLETS.
- 2) SELL "AMERICAN" CARTIER INTO ALL AIRPORT LOCATIONS WHERE "AMERICAN" CARTIER IS SOLD IN THE DOMESTIC TAX-PAID MARKET.
- 3) SELL "AMERICAN" CARTIER INTO ALL U.S. AIRPORTS. SELL THE VIRGINIA CARTIER IN ALL OTHER SEGMENTS OF U.S. DUTY FREE.
- 4) SELL "AMERICAN" CARTIER IN ALL U.S. DUTY FREE OUTLETS.

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## VIRGINIAN VS. AMERICAN BLENDED CARTIER

### VIRGINIA - ADVANTAGES

- ALMOST ALL OF THE CUSTOMERS IN U.S. DUTY FREE SHOPS ARE NOT U.S. CITIZENS.
- MOST ALL OF CARTIER'S CURRENT PURCHASERS IN U.S. DUTY FREE SHOPS ARE MIDDLE AGED JAPANESE. AS INTERNATIONAL TRAVELLERS/CONSUMERS, THEY WILL EXPECT TO RECEIVE THE STANDARD VIRGINIA BLEND AND PACKAGING FOR CARTIER.
- THERE IS A DEMAND FOR VIRGINIA CIGARETTES IN A NUMBER OF DUTY FREE SEGMENTS INCLUDING THE MEXICAN AND CANADIAN BORDERS. CARTIER WOULD GIVE PHILIP MORRIS A WELL-KNOWN VIRGINIA BLEND TO COMPETE IN THESE MARKETS.
- IT WOULD BE EASIER TO GAIN DISTRIBUTION FOR THE VIRGINIA BLEND IN MOST OUTLETS, ESPECIALLY AIRLINES.
- WITH PROPER VISIBILITY WITHIN AIRPORT SHOPS, WE CAN ATTAIN BRAND AWARENESS WITH THE TRAVELLING U.S. CONSUMER WITHOUT ALIENATING CARTIER'S CURRENT CONSUMERS.
- THE VIRGINIA BLEND WOULD MOST LIKELY BE LESS COSTLY THAN THE AMERICAN BLEND.

### AMERICAN - ADVANTAGES

- BY OFFERING A DIFFERENT PRODUCT THE DUTY FREE RETAILER MIGHT BE ABLE TO OBTAIN HIGHER MARGINS AND THUS GIVE CARTIER A GREATER "PUSH".
- THE AMERICAN BLEND COULD HELP BUILD PM-USA'S TAX-PAID BUSINESS.

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PM DUTY FREE INC'S MARKETING RECOMMENDATIONS  
FOR CARTIER

PRODUCT

- SELL THE EXISTING VIRGINIA PRODUCT IN ALL LOCATIONS EXCEPT LOS ANGELES.
- TEST THE AMERICAN BLENDED CARTIER IN LOS ANGELES AT A HIGHER RETAIL PRICE (\$18-20 PER CARTON).

PRICING

- MAINTAIN THE EXISTING PRICING OF \$34.50/\$36.50 LESS 5%.
- ESTABLISH A \$34.50/M LESS \$1.10 (HANDLING AND DELIVERY ALLOWANCE) PRICE FOR THE AMERICAN BLENDED PRODUCT.

PROMOTION

- OBTAIN NEW BACKLIT TRANSPARENCIES IN ALL MAJOR OUTLETS IN ADDITION TO MAINTAINING EXISTING AIRPORT TRANSPARENCIES.
- ESTABLISH WINDOW PRODUCT DISPLAYS WHERE FEASIBLE.
- PAY FOR THE BACKLITS AND DISPLAYS VIA A \$/M VOLUME INCENTIVE PROGRAM WHERE POSSIBLE. THE PROGRAM SHOULD BE SET UP TO GENERATE A 65-70% GROSS MARGIN TO DUTY FREE SHOPPERS AND OTHER KEY OPERATORS.
- OFFER A GWP ITEM IN SELECT NON-JAPANESE OUTLETS.

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## **PACKAGING**

- **AS A NEXT STEP, WE SHOULD EXPLORE DIFFERENT CARTON PACKAGING WHICH COULD OFFER PM AND THE RETAILER A HIGHER GROSS MARGIN.**

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